Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Greaves Cotton Limited

Fully charged up

Automobiles	Sharekhan code: GREAVESCOT	Company Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 162**	
Price Target: **Rs. 194**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

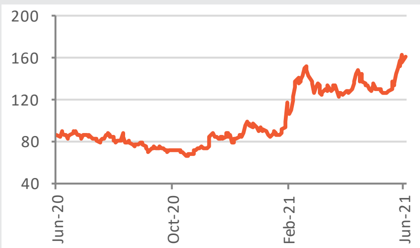
Company details

Market cap:	Rs. 3,746 cr
52-week high/low:	Rs. 169 / 66
NSE volume: (No of shares)	18.9 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	55.6
FII	4.9
DII	13.0
Others	26.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.4	26.8	91.8	86.9
Relative to Sensex	19.3	21.2	77.4	35.5

Sharekhan Research, Bloomberg

Summary

- Greaves is set to benefit from government's push to speed up adoption of EVs through higher incentives.
- We expect Greaves to clock a 24% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 245% earnings CAGR.
- The stock trades below historical averages at a P/E multiple of 20x and EV/EBITDA multiple of 12.1x its FY2023E estimates.
- We maintain a Buy on the stock with a revised PT of Rs. 194, factoring better multiples, owing to positive business outlook for mobility business.

Greaves Cotton Limited (Greaves) is well poised to benefit from faster adoption of electric vehicles (EV) in India, especially in electric two wheelers (e-2W) and three wheelers (e-3W) segments, where the company has a strong portfolio and growth strategies in place. The Department of Heavy Industry (DHI) has made revisions to Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles II (FAME II) scheme that will bring down prices of electric scooters and motorcycles further. The incentive for e-2Ws is being hiked from the current Rs. 10,000 per kWh to Rs. 15,000 per kWh and the limit on the incentives for an e-2W is now capped at 40% of its price, twice the previous limit of 20%. This would mean that an e-2W with a 1 kWh battery will receive an incentive of Rs. 15,000; one with a 2 kWh battery will be eligible for a Rs. 30,000 incentive, while one with a 3 kWh battery pack will be eligible for an incentive of at least Rs. 45,000, as long as its ex-factory cost is over Rs. 1 lakh and below Rs. 1.5 lakh. We expect the FAME II scheme would be extended beyond 2022, as the benefits utilised under the scheme are mere 5% currently. Besides these incentives, state governments are also helping to drive faster EV adoption through additional incentives, such as additional subsidies on EV purchase, increased outlay for EV infrastructure, promoting EV start-ups, and exemptions from registration and other fees that are applicable to normal internal combustion engine (ICE) vehicles. Greaves has ramped up its e-mobility business at a much faster pace than we had anticipated earlier. We believe Greaves is well positioned to benefit from the government's push towards fast adoption of EVs. We continue to maintain our positive stance on Greaves because of its timely investments in the e-mobility business. Greaves acquired Ampere in 2018 and now holds an 81.2% stake. Through its subsidiary Ampere, Greaves is setting up a EV mega site manufacturing facility at Ranipet, with a proposed investment plan of Rs. 700 crore to build capacity of producing one million e-2Ws in a phased manner over a period of 10 years. The plant will have initial installed capacity of 1,00,000 units of e-2Ws. The company is well prepared to ramp up production faster, if the Indian automobile markets witness a speedy EV adoption. In addition to its new venture in e-2W business, the company has incubated multi-businesses in-house, which includes non-auto engines, e-rick, mega/smart gensets, Greaves care (retail services arm), and multi-brand spares divisions. The performance, acceptance, and success of new businesses have aspired Greaves to take bigger strides and expand businesses aggressively. The company's core business of automotive engines remains strong. With time, the company has expanded its 3W diesel engine business to last-mile mobility and has moved from one product/application/fuel to multi-product/application/clean-tech focused businesses. In our view, the refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines. Given improved new business outlook and expectations of improving 3W sales, we maintain our positive stance on the company and retain a Buy call.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 194: Greaves continues to grow strongly, aided by its timely investments and expansion in e-mobility and non-auto businesses. We expect the 3W industry to gain demand, as the COVID-19 situation is normalised and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be key catalysts for demand. Greaves will be the key beneficiary of recovery in 3W demand. In addition, the company's focus on new businesses, especially e-2Ws and e-3Ws, provides room for strong growth. We expect Greaves to continue to grow strongly with a 24% revenue CAGR during FY2021-FY2023E and also see sharp margin expansion, leading to a 245% earnings CAGR. The stock is trading below its average historical multiple at P/E multiple of 20x and EV/EBITDA multiple of 12.1x its FY2023E estimates. The company also has a history of a strong dividend payout ratio of 40-60%, which implies dividend yield of 3-3.2%. We retain Buy on the stock with a revised PT of Rs. 194.

Key Risks

The company's performance can be impacted adversely if commodity prices continue to rise at the current pace. Moreover, prolonged delay in the recovery of the 3W industry can materially impact our revenue projections.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenues	1,911	1,500	1,923	2,307
Growth (%)	(5.2)	(21.5)	28.2	20.0
EBIDTA	210	80	212	296
OPM (%)	11.0	5.3	11.0	12.8
Net Profit	123	16	124	187
Growth (%)	(32.1)	(87.2)	691.5	50.8
EPS	5.4	0.7	5.4	8.1
P/E	30.1	238.9	30.2	20.0
P/BV	5.3	6.0	6.1	5.6
EV/EBIDTA	16.6	44.3	16.9	12.1
ROE (%)	17.7	2.5	20.2	28.1
ROCE (%)	20.9	3.8	23.7	32.9

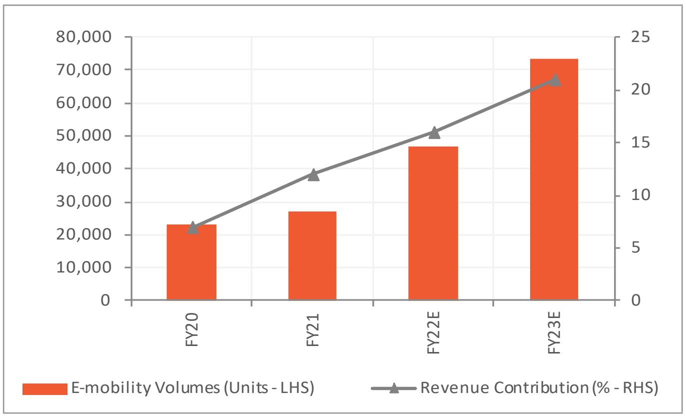
Source: Company; Sharekhan estimates

E-mobility business to drive growth in the next phase: Greaves is well poised to benefit from faster adoption of EVs in India, especially in e-2W and e-3W segments, where the company has a strong portfolio and growth strategies in place. The Department of Heavy Industry (DHI) has made revisions to the Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles II (FAME II) scheme that will bring down prices of electric scooters and motorcycles further. The incentive for e-2Ws is being hiked from the current Rs. 10,000 per kWh to Rs. 15,000 per kWh and the limit on the incentives for an e-2W is now capped at 40% of its price, twice the previous limit of 20%. This would mean that an e-2W with a 1 kWh battery will receive an incentive of Rs. 15,000; one with a 2 kWh battery will be eligible for Rs. 30,000 incentive, while one with a 3 kWh battery pack will be eligible for an incentive of at least Rs. 45,000, as long as its ex-factory cost is over Rs. 1 lakh and below Rs. 1.5 lakh. We expect the FAME II scheme would be extended beyond 2022, as the benefits utilised under the scheme are mere 5% currently. Besides these incentives, state governments are helping to drive faster EV adoption through additional incentives, such as additional subsidies on EV purchase, increased outlay for EV infrastructure, promoting EV start-ups, and exemptions from registration and other fees that are applicable to normal internal combustion engine (ICE) vehicles. Greaves has ramped up its e-mobility business at a much faster pace than we had anticipated earlier. We believe Greaves is well positioned to benefit from the government's push towards fast adoption of EVs. We continue to maintain our positive stance on Greaves because of its timely investments in the e-mobility business.

Adoption of e-2Ws to be 10-15% of the 2W market size: Management expects that the government's push towards fast adoption of EVs in the automobile industry would yield better results. The company expects 10-15% penetration of e-2W by 2025 and 20-30% penetration by 2030, in line with the government's expectations. We believe Greaves is likely to be a beneficiary of the government's push. Besides the incentives under FAME-II scheme, the government has launched Go Electric media campaign to spread awareness on the benefits of e-mobility and EV charging infrastructure aiming key stakeholders. Moreover, FAME-II scheme is focussed on E-2Ws and E-3Ws, with ~52% subsidies provided under the scheme.

Ampere adds strong experience in EV technology: Greaves acquired Ampere in 2018 and now holds an 81.2% stake. Through its subsidiary Ampere, Greaves is setting up a EV mega site manufacturing facility at Ranipet, with a proposed investment plan of Rs. 700 crore to build capacity of producing one million e-2Ws in a phased manner over a period of 10 years. The plant will have initial installed capacity of 1,00,000 units of e-2Ws. The company is well prepared to ramp up production faster, if the Indian automobile markets witness a speedy EV adoption. Ampere is one of the leaders in e-mobility and have 12 years of experience in EV technology, designing, and manufacturing EVs. Ampere is a market leader with a strong presence in both B2C and B2B segments, with a strong network across India. Ampere extended play to E-3W with acquisition of E-Rick business under 'Ele' brand in 2021. The company has a strong e-mobility retail network with 328+ dealers across 260+ cities and towns. It has a strong presence in the B2B segment with more than 50 tie-ups in food retail, e-commerce, and ride sharing. The e-mobility business is growing very strongly. In Q4FY2021, the e-mobility business saw 100% y-o-y volume growth, 150% y-o-y revenue growth, and a 13% contribution to consolidated revenue. We expect the e-mobility business to continue to remain the key driver for the company with its revenue at a 64% CAGR during FY2021-FY2023E, resulting in revenue contribution from 12% in FY2021 to 21% in FY2023E.

E-mobility business to contribute more than 20% by FY23E



Source: Company, Sharekhan Research

Focus on fast speed e-scooters: After acquiring a majority stake in Ampere Electric, Greaves has expanded the portfolio of its vehicles towards fast speed e-scooters. Traditionally, Ampere Electric used to target tier 3 and 4 cities and slow speed e-scooters. After the acquisition of Greaves, Ampere moved into the commuter segment (high speed e-scooters), focusing tier 1 and 2 cities and B-2-B clients. Currently, the company's e-mobility business has three business segments – e-2W, e-3W, and e-industrial solutions. Moreover, the company is in advanced negotiations with 3W manufacturers for its 'Crest' engines for both petrol and CNG variants, which could be a potential revenue driver in the long run.

Automotive business: Greaves continues to focus on its core engine business, where it enjoys a leadership position. The company is a global leader in single cylinder engines and has the capability to manufacture one engine per minute. The company manufactures engines from 7 HP to 700 HP with options in diesel, petrol, and CNG. Greaves holds 65-70% market share in domestic diesel engines. Sales of automotive engines have taken a sharp hit and declined by 63% y-o-y in FY2021 and 22% y-o-y in Q4FY2021 due to poor performance of the 3W industry. We expect the 3W industry to gain demand, as COVID-19 situation gets normalised and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand. Recovery in 3W sales will boost Greaves' core business sales and add significantly to its overall revenue.

Non-automotive business: The company's expansion into the non-automotive business is a strategic move, which provides it to explore and expose to new sectors on existing capabilities. Greaves' non-automotive segment serves agriculture, construction, and industrial sectors. The company has moved into smart gensets and industrial engines for fire pumps. Non-automotive engines sales and non-auto products (genset and light equipment) sales have improved by 56% y-o-y and 32% y-o-y, respectively, in Q4FY2021. The potential in these markets is huge and we expect the non-auto business to reduce seasonality impact in the medium term.

Management's outlook positive: Management of Greaves was positive on the growth registered in Q4FY2021 because of robust demand witnessed across its segments. The company is expecting demand recovery in the 3W segment after the normalisation of economic activities and rolling out COVID-19 vaccines successfully throughout the country. The non-automotive business and e-mobility business will be the key growth driver for the company. The non-automotive business exhibited strong growth momentum with 76% y-o-y revenue growth in Q4FY2021. Genset business outperformed the market and the new range of Smart Genset 'Greaves Genius' are being well accepted by the market. The outlook of agriculture, marine and non-automotive engines continues to remain strong in anticipation of good monsoon for the third consecutive year. Focus on R&D and introducing technology-enabled and energy-efficient products are also anticipated to enhance the company's growth momentum in the medium term.

Cost-control measures: Greaves is working on improving operating efficiencies and reducing overhead costs. Greaves has launched a voluntary retirement scheme for its employees at its Ranipet plant and plans to close down its operations. Further, the company is working on overhead cost reduction and aims to reduce costs by about 10%.

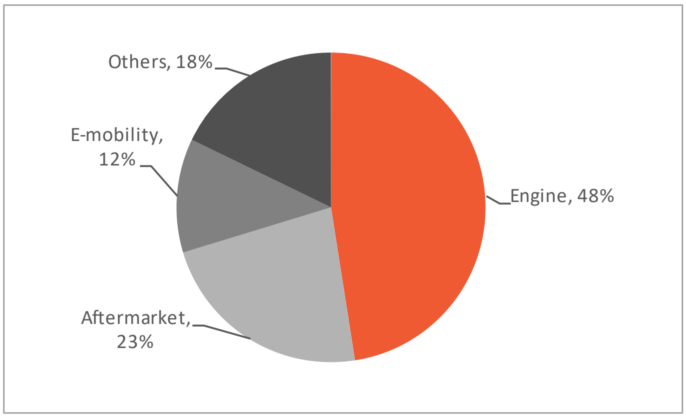
Latest quarterly results: Greaves continues to perform strong revenue growth in Q4FY2021, but EBITDA margin missed our estimates due to rise in staff and other operating expenses. Net revenue of the standalone business grew by 27.1% y-o-y and 4.6% q-o-q to Rs. 457 crore, led by automotive and non-automotive businesses. Consolidated revenue increased by 34.7% y-o-y, driven by 99% growth in the e-mobility business and 27% growth in other businesses. Standalone operating profit margin for Q4FY2021 stood at 10.4%, showing an improvement of 190 bps y-o-y, while declining 200 bps q-o-q. EBITDA grew by robust 54.9% y-o-y to Rs. 47.3 crore. As a result, standalone net profit grew by 133.1% y-o-y to Rs. 23.4 crores in Q4. On a q-o-q basis, net profit declined by 24.2%. Consolidated PAT stood at Rs. 13.5 crore in Q4FY2021 against Rs. 0.6 crore in Q4FY2020.

Performance in FY2021: The pandemic severely impacted the 3W business with the industry declining by 67% in FY2021 and the diesel 3W segment declining by 62%. The business saw some rebound in H2FY2021, but with COVID Wave 2 and its impact on shared mobility, stress in the segment may last longer. The aftermarket business rebounded strongly in H2FY2021 and is now back to pre-COVID levels. During the year, the company added couple of new OEMs in both domestic and international markets.

Strong broad-based growth; Expect robust double-digit growth in FY2022: We believe the company is benefiting from its re-focus strategy on automotive, non-automotive, e-mobility, retail, and finance businesses. Over the past few years, the company has transformed its businesses to expand its markets from 3W diesel engines to last mile mobility, move beyond one product/application/fuel with focus on clean tech, increasing value to customers through B2C, expand products to solutions, and leverage the company's brand and penetration. The refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines. Given the improved new businesses outlook and expectations of improving 3W sales, we expect Greaves to continue to grow strongly with a 24% revenue CAGR during FY2021-FY2023E and sharp margin expansion, leading to a 245% earnings CAGR, despite low base in FY2021.

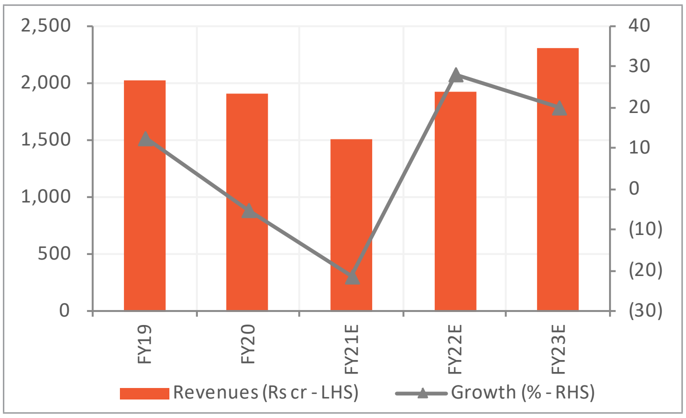
Financials in charts

Revenue Mix (%)



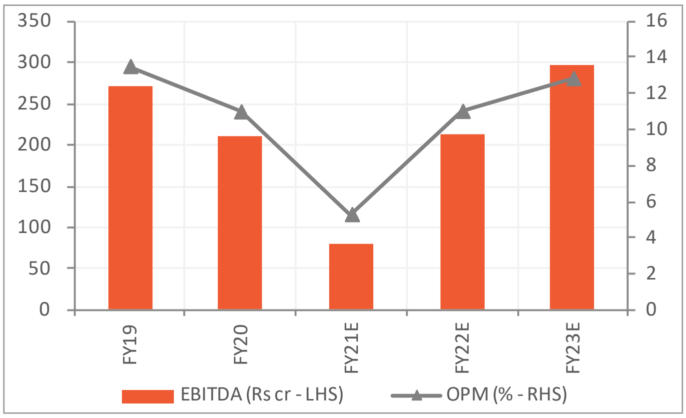
Source: Company, Sharekhan Research

Revenue and Growth Trend



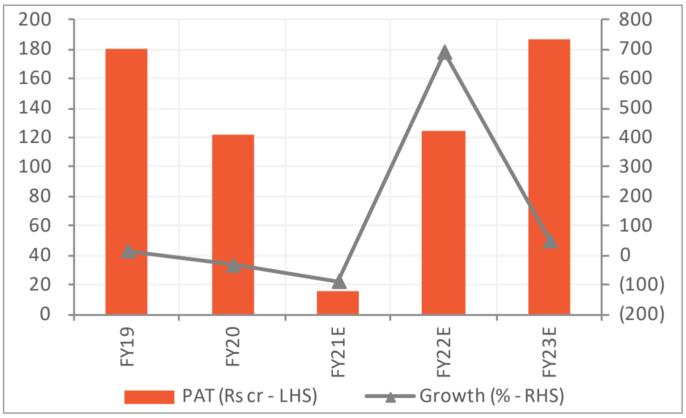
Source: Company, Sharekhan Research

EBITDA and OPM Trend



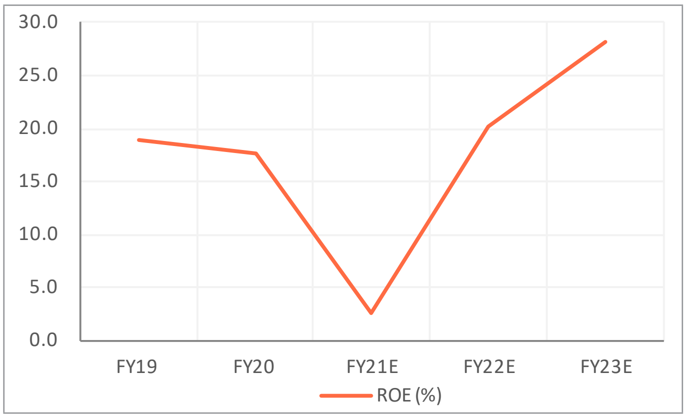
Source: Company, Sharekhan Research

Net profit and Growth Trend



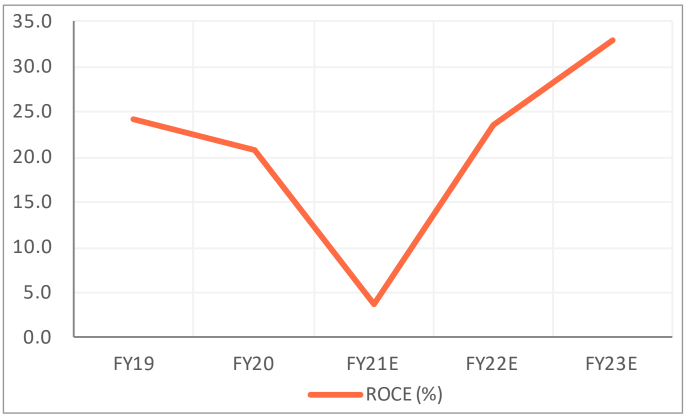
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook - Demand picking up in domestic and export markets

Business outlook for the automotive segments is expected to improve with normalisation of economic activities. Automotive demand is witnessing strong recovery in 2W and 4W segments, aided by pent-up demand and increased personal mobility transport. Rural and semi-urban remain buoyant on robust farm income this year. The recovery in export destinations is auguring well for the sector. The rolling out of COVID-19 vaccination programmes in the country are keeping overall outlook positive for the coming months, following the respective approval of various vaccines. In addition, the 3W industry is expected to gain demand, as the COVID-19 situation gets normalised and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be key catalysts for demand.

■ Company outlook - Beneficiary of EV adoption in 2W and 3W segments

Greaves continues to report strong performance in Q4FY2021. Sequential improvement in business was driven by robust recovery in non-auto business, electric mobility but a slower paced recovery in 3W. We believe the company is benefiting from its re-focus strategy on automotive, non-automotive, E-mobility, retail, and finance businesses. In our view, the refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines. Greaves is well positioned to benefit from the government's push towards faster adoption of EV, especially e-2Ws and e-3Ws, where the company has strong product lines. Given the improved new businesses outlook and expectations of improving 3W sales, we maintain our positive stance on the company.

■ Valuation - Maintain Buy with a revised PT of Rs. 194:

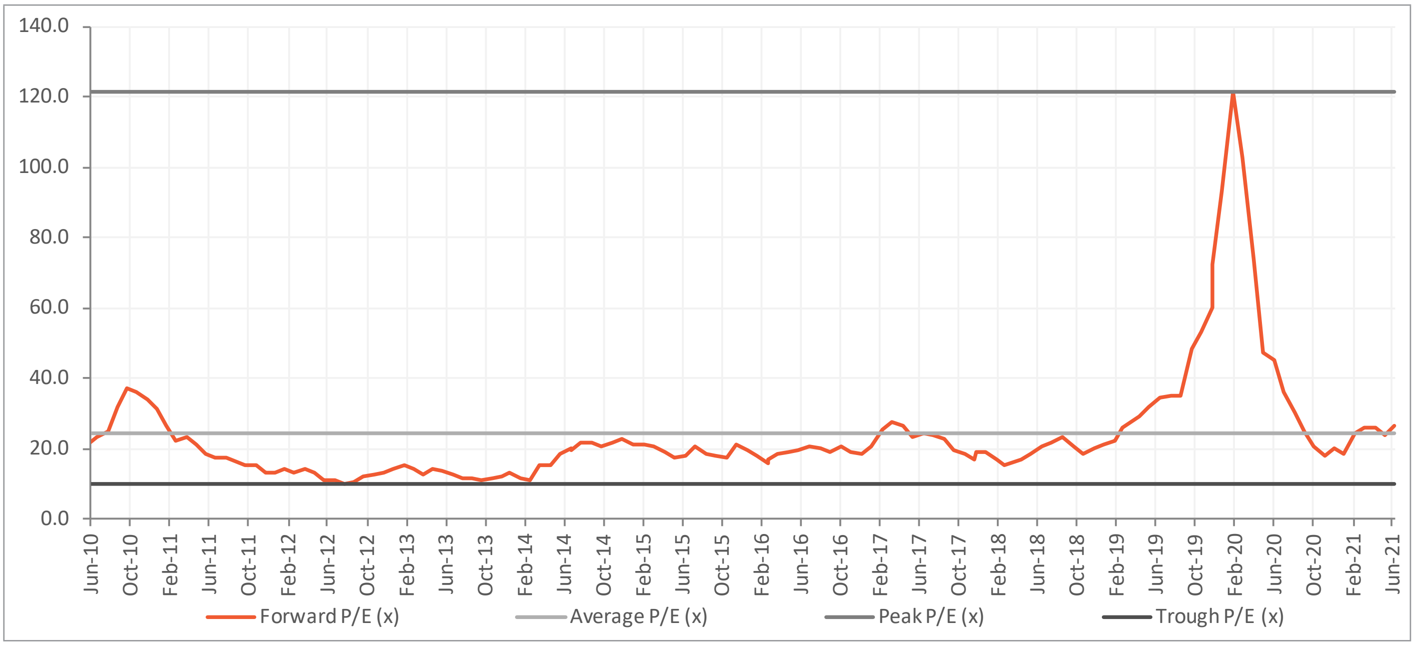
Greaves continues to grow strongly, aided by its timely investments and expansion in e-mobility and non-auto businesses. We expect the 3W industry to gain demand, as the COVID-19 situation normalises and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand. Greaves will be key beneficiary of recovery in 3W demand. In addition, the company's focus on new businesses, especially e-2Ws and e-3Ws, provides room for strong growth. We expect Greaves to continue to grow strongly with a 24% revenue CAGR during FY2021-FY2023E and also see sharp margin expansion, leading to a 245% earnings CAGR. The stock is trading below its average historical multiple at P/E multiple of 20x and EV/EBITDA multiple of 12.1x its FY2023E estimates. The company also has a history of strong dividend pay-out ratio of 40-60%, which implies dividend yield of 3-3.2%. We retain Buy on the stock with a revised PT of Rs. 194.

Price Target Calculation

	Rs/Share
FY23E EPS	8.1
Target P/E Multiple (x)	24
Target Price	194
Upside (%)	20%

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Greaves Cotton	162	238.9	30.2	20.0	44.3	16.9	12.1	3.8	23.7	32.9
Alicon Castalloy	561	NA	18.0	10.4	11.7	7.1	5.3	5.9	14.6	19.2
Gabriel India	121	31.9	17.3	13.6	14.8	9.3	7.4	11.8	17.8	20.0
Lumax Auto Technologies	152	21.4	15.4	11.7	10.1	7.6	5.9	12.8	14.6	16.5

Source: Company, Sharekhan estimates

About company

Greaves is one of the leading suppliers of powertrain and related solutions to auto original equipment manufacturers (OEMs). The company has a lion share in the 3W diesel segment. The company's products can be classified into four categories – engines (48% of sales), aftermarkets (23% of sales), e-mobility (12% of sales), and others (18% of sales). The others segment includes power gensets, agri-equipment, and other application-based engines.

Investment theme

Greaves is benefitting by its re-focus strategy on automotive, non-automotive, E-mobility, retail, and finance businesses. Over the past few years, the company has transformed its businesses to expand its markets from 3W diesel engines to last-mile mobility, move beyond one product/application/fuel with focus on clean tech, increasing value to customers through B2C, expand products to solutions, and leverage the company's brand and penetration. The refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines in H2FY2021, which underpin our strong belief in the management. Given improved new business outlook and expectations of improving 3W sales, we expect the company's revenue and profitability to remain firm in the medium term. Moreover, its strategic move towards investment in Ampere has a huge potential for businesses as well as valuation multiple. Hence, we maintain our Buy rating on the stock.

Key Risks

- The company's performance can be impacted adversely if commodity prices continue to rise at the current pace.
- Prolonged delay in the recovery of the 3W industry can materially impact our revenue projections.

Additional Data

Key management personnel

Karan Thapar	Chairman
Nagesh Basavanhalli	Managing Director & CEO
Amit Mittal	Chief Financial Officer
Atindra Basu	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KARUN CARPETS PVT LTD	55.6
2	New India Assurance Co Ltd/The	2.8
3	L&T Mutual Fund Tustee Ltd/India	2.6
4	Life Insurance Corp of India	2.4
5	Massachusetts Institute Of Technology	2.3
6	General Insurance Corp of India	1.7
7	Vantage Equity Fund	1.1
8	Bajaj Allianz Life Insurance	0.3
9	American Funds Insurance Series	1.7
10	238 Plan Associates Llc	0.0

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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